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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 004050

SIPDIS

STATE PLEASE PASS AIT/W AND USTR  
STATE FOR EAP/RSP/TC, EAP/EP AND EB/IFD/OIA  
USTR FOR SCOTT KI  
USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER  
TREASURY FOR OASIA/ZELIKOW AND WISNER  
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF GOVERNORS,  
AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: DECL: 12/16/2024

TAGS: [PINR](#) [EINV](#) [EFIN](#) [ECON](#) [TW](#) [CH](#)  
SUBJECT: TAIWAN'S NEW FINANCIAL SUPERVISORY COMMISSION  
(C-AL4-00965)

REF: A. STATE 267500

[1B](#). TAIPEI 2009

Classified By: AIT DIRECTOR DOUGLAS PAAL, REASON: 1.4 (C) and (D)

[¶11.](#) (SBU) Summary: Taiwan's Financial Supervisory Commission has been very active since it was established in July 2004 to encourage market liberalization and reform. Although some foreign businesses have complained about difficulty in keeping up with the flurry of new regulations, the regulations are consistent with efforts to liberalize the financial sector. The FSC emphasizes its status as an independent agency, but has close ties to the ruling party.  
End summary.

FSC Objectives

[¶12.](#) (C) The stated FSC objectives are internationalization and deregulation of Taiwan financial sector, flexible regulations and strong enforcement, and maintaining Taiwan's financial stability. Long range FSC goals include passage of new legislation including the Single Financial Services Act and the Securities and Exchange Act (both awaiting legislative action). FSC Chairman Kong Jaw-sheng said the FSC fully supports President Chen's stated goal of reducing the number of financial holding companies in Taiwan from 14 to seven within the coming two years. FSC International Affairs Department Deputy Director General Andrea Lee told AIT that the FSC was disappointed that the recent auction of the Chung Hsing Bank had not attracted foreign bidders. It remains a goal of the FSC to encourage foreign acquisition of Taiwan banks.

Relations With Other Agencies

[¶13.](#) (C) There was confusion in some press reports regarding the relationship of the FSC and the Ministry of Finance (MOF) as well as the FSC responsibility for financial policy making. Some reports indicated that this responsibility shifted from the MOF to the FSC and back to the MOF. The FSC was established in July 2004 as an independent regulatory agency outside of day-to-day direct executive branch control. The FSC chairman and its nine commissioners are nominated by the Premier and appointed by the President for a fixed term of office. While political affiliation is obviously a factor in their selection, they are prohibited from participating in political activities while in office. The executive branch is still able to promote its financial policies through the MOF, which it controls directly. AIT has explored this issued in some detail with both the Minister of Finance and the Chairman of the FSC and found them to be largely in agreement on this point.

Political Connections

[¶14.](#) (C) While FSC Chairman Kong Jaw-sheng likes to emphasize FSC independence, he had been personally closely associated with President Chen and the DPP government prior to his appointment as FSC Chairman. He helped organize a Taiwan investment team to Europe in 2002 on behalf of the DPP government while he was Taiwan country head of the Credit Swiss First Boston (CSFB) and claims that subsequent pressure from China on CSFB led to his separation from the bank. FSC Vice Chairman Lu Tung-ying and FSC Commissioner Lin Kun-pao both campaigned for President Chen prior to his March 2004 re-election (also prior to the establishment of the FSC). However, Kong, Lu, and Lin are not DPP party members, but have solid financial backgrounds. None of nine FSC commissioners is a member of any political party. The FSC has not been a significant target of opposition party criticism. The most politically sensitive issue it deals with is the Financial Reconstruction Fund (FRF) that facilitates the sale of troubled financial institutions. The

FSC has sought additional funding for the FRF, but it has been blocked by the opposition parties.

FSC Chairs the Joint Standing Committee

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15. (SBU) The FSC functions as a consolidated financial regulator over the banking, insurance, securities and futures industries. Its nine commissioners represent the four bureaus (banking, insurance, securities and futures, and inspection) and five supporting departments (planning, international affairs, legal affairs, information management, and support) within the FSC. Decisions are made by a majority vote of commissioners. Taiwan officials believed a consolidated regulator was needed to respond to the challenge of regulating multi-faceted financial holding companies and the global trend of increasing cross-sector business among banking, insurance, and securities and futures. The FSC enjoys quasi-judicial powers in that it can supervise, examine, conduct investigations, and impose fines or other penalties. The FSC chairs the Joint Standing Committee (JSC), which also includes representatives of the MOF, Central Bank, Mainland Affairs Council (MAC), Council for Economic Planning and Development, and other ministries on an ad hoc basis.

16. (C) In remarks to an Amcham meeting on December 15 Chairman Kong noted that the JSC meets to discuss financial and monetary policies that may go beyond the responsibility of any single agency. Kong mentioned privatization of state-owned enterprises (SOEs) as an example. Financial sector SOEs with government ownership above 50 percent come under the jurisdiction of the MOF. However, the FSC can assist the privatization of those with less than 50 percent government ownership. In both cases, the FSC is involved in arranging underwriting for the issuance of equity shares. Kong also mentioned that while the FSC has overall responsibility for securities trading, the Central Bank has authority over capital flows arising from trading in foreign securities and foreign portfolio investor trading in Taiwan.

Cross-Strait FSC Issues

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17. (C) Currency exchange between China's Renminbi (RMB) and Taiwan's New Taiwan Dollar (NTD) is another issue requiring interagency coordination between the FSC, Central Bank, and MAC. The FSC oversees banking operations, while the Central Bank is responsible for managing capital flows with foreign currencies, and MAC has authority over cross-Strait issues. A Central Bank official told AIT that in early August an interagency meeting attended by Taiwan National Security Council Secretary General Chiou I-jen, the Central Bank, FSC, and MAC discussed a pilot project for legal exchange between the NTD and RMB by banks on the Taiwan-controlled islands of Kinmen and Matsu. However, according to our Central Bank contact, the proposal has been blocked by the MAC and is still sitting on the desk of the MAC Vice Chairman awaiting his approval. During an early December trip to Kinmen, AIT found that banks there were still unable to change currency between RMB and NTD.

Taiwan's Strengths

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18. (C) The FSC believes that Taiwan has potential as a regional fund raising and asset management center. Chairman Kong noted that companies from Singapore and Hong Kong frequently come to Taiwan to raise capital. He pointed out that Taiwan has a strong and globalized manufacturing base, huge capital surplus and low external debts, well-trained professionals, and a well-established financial system. He also noted that the liquidity of Taiwan's stock market is third largest in the world, its market capitalization is first among emerging markets and third overall in Asia, and the volume of Taiwan's bond market is also third in Asia.

New FSC Regulations

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19. (C) Among new regulations, the FSC has abolished required earnings forecasts for listed companies. The reason behind this move was to prevent abuse and stock price manipulation and to encourage portfolio investors to read and analyze company financial statements rather than depending only on earnings forecasts. Just as Taiwan has too many banks, it also has too many insurance companies. The FSC is encouraging them to merge into bigger, stronger insurance companies that can play a more significant role in the region. The FSC is currently rating insurance companies on the quality of their management and financial standing and will publish the names of companies receiving penalties. The FSC has restricted the use of credit cards for paying debt in order to get credit cards back on track as tools for consumption instead of debt repayment.

Business Community Reaction

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¶10. (C) AIT has heard complaints from foreign financial firms about the difficulty of keeping up with the many new requirements imposed by the FSC. Business people say they were confused about who spoke for the FSC in the context of contradictory statements from different FSC commissioners. To address these problems, the FSC appointed a spokesperson and made efforts to increase the transparency of its decision-making procedures. Chairman Kong has delivered powerpoint presentations and answered questions at a number of gatherings of foreign businesspeople, including Amcham and the European Chamber of Commerce in Taipei (ECCT). During Chairman Kong's Amcham presentation, he answered wide-ranging questions for about 45 minutes.

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